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PUBLIC PRIVATE PARTNERSHIPS IN INDIAN RAILWAYS

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Abstract

Indian Railways, since its inception have been under government ownership. But with increasing demand and cost pressures, entry of private sector has become inevitable. Indian railways have also embraced the idea of use of public private partnership for better public service and efficient resource utilization.

This paper studies the effectiveness of using public private partnership (PPP) model in Indian railways. The public-private partnership model for investment, though a phenomenal success in case of roadways, or in other words, highway development projects, has till now failed in making any significant impact in the railway sector. Well aware of the importance of PPPs in economic development, the railways had initiated several concrete measures to explore the PPP route for improving its flagging infrastructure across the country. But the private sector's response to these initiatives, however, has been somewhat subdued.

The paper studies the various PPP projects which IR has undertaken, and which are in the pipeline for the future, their success rate, the factors which are acting as enablers, and more importantly, the factors, which are responsible for lower success rate of PPP model in Indian Railways. It tries to explore the opportunities and potential hidden in using PPP model for Indian railways.

THE INDIAN RAILWAYS

"Lifeline of the Indian economy", the Indian Railways was started on April 16, 1853, with a 53 km journey between Mumbai and Thane, and from such modest beginnings, it has come a long way today, to become, one of the largest railway networks of the world, in terms of both coverage area, and passenger-freight traffic. It is spread over 109,221 km, and covers more than 6900 stations.

Operating on three Gauges, the Indian trains carry over 481 Billion Tonne Kilometres (BTKMs) and 695 Billion Passenger Kilometres (BPKMs) of goods and passenger traffic respectively every year. In terms of load sharing with other transport modes in the country, the railways carry around, 40% and 20 % of the total freight and passenger traffic respectively. It is the most preferred mode of transport for long distance journeys.

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Indian Railways is one of the premier infrastructural wings of the economy and it combines all the major functions of a conventional Railway system. It builds and maintains infrastructure assets like Track, Electric traction, Signalling Systems, Telecom network, Stations / Terminals etc. It operates goods and passenger trains, along with operating Suburban trains in various metros. It manufactures locomotives, coaching stock, wagon and components of rolling stock like Wheel & Axle. Various workshops are run by IR to maintain its rolling stock & it is also involved in ancillary activities like catering, tourism etc. All the above activities are managed through a strong work force of around 1.41 million. IR's contribution towards the gross national product is that it accounts for about 1% of India's GNP.

IR is a department of the Government and the Ministry of Railways functions under the guidelines of the Railways Minister assisted by Minster of State for Railways. The management of the Indian Railway Board comprises of a Chairman and six functional members who are there to supervise the running of 16 zonal railways, metro railway (Calcutta), production units, construction organisation and other rail establishments. There are nine (9) subsidiary organizations under the Ministry of Railways viz. IRCON, RITES, CONCOR, RCIL RVNL, MRVC, IRFC, and KRCL which undertake specialised functions leading to IR's growth and development.

Mixed traffic is the most important characteristic of Indian Railways, i.e, both the passenger and freight trains share or use the same track and infrastructure. Passenger trains make up nearly 70% of the trains run but their contribution to the revenue earned is less than 35%, while freight trains constitutes only 30% of the trains, but contribute more than 65% towards the revenue.

The financial condition of Indian Railways has been a great turnaround story. It was under the threat of an impending financial breakdown in 2001. It was declared as an organization "which was heading towards bankruptcy" by an Expert Group in 2001 and also was termed as being in a "terminal debt trap". Its cash balance was down to a level of Rs 149 crores and it was declared that it has defaulted in payment of dividend to GOI in 2001.But, this is all history. The last five years have seen an enormous change and it has managed to do a dramatic reinvention of its business. It is presently going through one of the most impressive and unprecedented expansions in its history. The freight and passenger traffic on IR have shown a growth rate of over 9% on an average during the last four years; the revenues have grown even faster. This is in sharp contrast to the general trend rates of growth at 3-4% per annum normally.

PUBLIC PRIVATE PARTNERSHIP

PPP Project means a long term project or partnership on the basis of a contract or concession agreement, between the Government or statutory entity on one side and a private sector company on the other side, for delivering an infrastructure service on payment of certain pre agreed user charges.

Typically, the private sector consortium forms a special company known as a special purpose vehicle (SPV) to build and maintain the asset. This consortium is usually made up of a maintenance company, a building contractor, and a bank lender. It is this SPV that deals with or signs the contract with the government body and with subcontractors to build the facility and then maintain it."

Sharing of risk is one of the most standout features of a PPP. The PPPs which are generally successful incorporate a risk mitigation framework that assigns risk in terms of capacity to bear. The risk mitigation framework is addressed through a bankable concession agreement that clearly defines project risks and responsibilities.

PPP MODELS IN FIXED RAIL INFRASTRUCTURE

Build/Operate/ Transfer (BOT) (Annuity)

⇨ Ownership of the asset here continues with the private body initially for a 12 year period during which annuity is paid twice a year by Ministry of Railways. After termination, the assets are transferred to the concerned Zonal Railways.

Build, Own, Operate

⇨ Operation in most cases is arranged by IR under a contract.
Example: maintenance of gauge conversion projects.

Private Railways

⇨ This simply means Private participation or association in designing, construction, financing, maintenance and/ or operation of rail services under contract or concession arrangement.

Rolling Stock Manufacturing JV

⇨ New coach & other stock/parts factories and loco manufacturing units in Joint Venture with the Private Sector.

A FEW OF THE PPP INITIATIVES IN INDIAN RAILWAYS

The PPP projects in Railways started way back in 1986, in form of public-public partnership rather than public-private partnership, when CIDCO of Maharashtra government financed two third of a project for a train to Navi Mumbai. Later Konkan Railway Corporation was formed as a result of a joint venture between ministry of Railway and the state governments of Goa, Kerela, Karnataka, and Maharashtra to start coastal rail connectivity between south of Mumbai and Manglore. These intial Public Public partnerships later on paved way for the true PPP's in IR.

A few of the PPP initiative are listed below.

A. Container Corporation of India Limited (CONCOR)

CONCOR was set up in March, 1998 as a public sector enterprise under the Ministry of Railways. Its prime objective was to develop multi modal transport logistics infrastructure to support domestic container traffic, for ISO containers as also the country's growing international trade.

B. India Railway Catering & Tourism Corporation Limited (IRCTC)

Indian Railway Catering and Tourism Corporation Ltd. has been set up by the Ministry of Railways with the basic purpose of transferring the entire catering and tourism activity of the railways to the new Corporation so as to professionalise and upgrade these services with private participation. The Company's operations have been profitable.

C. Pipavav Railway Corporation Limited (PRCL)

While Konkan Railway Corporation was the first public – public partnership project, Pipavav Railway Corporation Ltd. (PRCL) was the first special purpose vehicle under public – private partnership. PRCL was constituted to provide B.G. rail link to Port of Pipavav in the State of Gujarat.

D. Rail Vikas Nigam Limited (RVNL)

With a view to cope with the increasing demand of traffic, the Government of India framed and approved National Rail Vikas Yojana (NRVY) on 15th August, 2002 with an estimated investment of Rs.15,000 crores. The investment was proposed for Port connectivity works and improvement of the Golden Quadrilateral (GQ) for meeting future transportation needs.

A LOOK INTO SOME FUTURE PROJECTS

In the past IR had made several attempts to rope in private participation in areas such as catering, wagon ownership and leasing and joint ventures for rail infrastructure projects as detailed earlier. These efforts were, however, limited in scale and scope. The current strategy is to make use of private capital through PPPs to the maximum extent in areas which are permissible to PPPs to improve efficiencies and control costs. To start with the following projects have been identified or underlined to be implemented fully or partly on PPP route:

A. Dedicated Freight Corridor

A new Dedicated Freight Corridor (DFC), initially covering about 2700 route kms equivalent to around 5000 track kilometres at an approximate cost of Rs.28000 crores (US$6 billion) joining the ports and mines of Eastern India and the ports of Western India to Punjab and Delhi has been planned. The construction of this corridor will be brought through an SPV being created for the purpose through a mix of Engineering Procurement and Construction (EPC) and PPP methods.

Ministry of Railways is going through the process of selecting a global consultant to advice on the concession agreement, principles of track access charges and other bidding issues and financing issues. It is outlined that innovative ideas on design, construction and maintenance of railway to achieve optimal life – cycle costs would be forthcoming through PPP especially as the work progresses on the initial two corridors and further corridors are taken up. The concessionaire could also tap additional supportive revenue streams through commercial use of land, construction of ICDs/ freight terminal/logistic park etc.

B. World Class Railway Stations

The Railway stations of important cities, tourists areas and metropolitans need to be revamped and modernize in accordance with the international standards. IR is planning to do so by inviting private players to invest in the area by leveraging the land around and airspace above the stations.

The private partner would be expected to construct and maintain the operational and passenger areas free of cost, share the revenues from the real-estate created and later on hand over the same to the MoR after the concession period. Altogether 24 stations have been decided at the first stage. Pre-qualification process for bidders for the pilot project for New Delhi Station has been started. Redevelopment of Patna, Secunderabad and Mumbai will also be taken up subsequently.

C. Commercial Utilization of Land:

IR have approx around 43,000 hectares of unused land. These parcels are mostly alongside the track in longitudinal strips, around railway stations, and in railway colonies especially in metro and other important cities/ towns with scope of being used commercially to generate revenue as well as capital for capacity addition and modernization. A new body, called, Rail Land Development Authority (RLDA) has been established under the Railway (Amendment) Act 2005 to pursue the same, i.e, the main objectives of generating revenue and up grading railway assets. 110 sites have already been entrusted to RLDA.

D. Setting up of SPV for Manufacturing of Locomotives/ Coaches/ Wagons:

The requirement of coaches/Electrical Multiple Units is projected at 22689 vehicle unit for the XI Five Year Plan. The gap between the requirement and the combined capacity of the two Production Units at Integral Coach Factory, Perambur and Rail Coach Factory, Kapurthala (around 2500 per annum) is planned to be bridged by augmenting the existing capacity of these Production Units and setting up a new manufacturing unit through a JV under PPP.

Similarly, the requirement of Electric and Diesel Locomotives has been estimated at 1800 each during the XI Five Year Plan i.e. 360 locos per year. The existing in house capacity for the manufacture of these locomotives is 150 per yaer and can be estimated to be 200 locos each per annum for Electric and for Diesel. The gap between the need and actual capacity is also planned to be filled by setting up two locomotive manufacturing units one each for diesel and electric locomotives through PPP. Chances of PPP through long term demand guarantee to prospective manufacturers of modern wagons is also being looked into.

E. High Speed Corridors

Pre-feasibility studies are being awarded for a few identified corridors to examine the linking of a few of the metropolises with high speed rail links to facilitate train travel over 600-1000 km within 2 ½ to 4 hours. All options including PPP are likely to be considered by the railways.

F. Wagon Investment Scheme

The Wagon Investment Scheme (WIS) with provisions for freight discounts and supply of guaranteed number of racks over periods ranging from 7-15 years for various categories of wagons has been in work for the past few years. This scheme is supposed to be replaced with a new scheme to broaden its appeal to investors providing high-capacity and special purpose wagons. A scheme to facilitate third-party leasing of wagons is also under finalization.

G. Port connectivity works and other infrastructure projects through Rail Vikas Nigam Limited (RVNL)

RVNL has been directed to take over capacity augmentation works and port connectivity projects by establishing Special Purpose Vehicles (SPVs). Some of the projects taken up or to be taken up by RVNL include Gandhidham- Palanpur gauge conversion project (joining Mundhra and Kandla ports to North India), Paradeep New Line - Haridaspur (joining iron ore mines of Jharkhand and Orissa to Paradeep port), Angul - Sukinda (joining coal belts and iron ores of Orissa), Obulavaripalli - Krishnapatnam – New Line Project joining the Krishnapatnam port of Andhra Pradesh, Bharuch-Dahej and Surat-Hazira projects in the State of Gujarat and Penn-Rewas Port link (Maharashtra).

H. Catering Services, Budget Hotels and Food Plazas

Indian Railway Catering and Tourism Corporation (IRCTC) was set up to develop catering services, budget hotels and food plazas at major stations through involvement of private entrepreneurs. IRCTC is building new Food Plazas in Railway premises with private participation. The license period term for food plazas is of nine years with a clause of extension of three years. Already 53 such Food Plazas have been constructed.

IR is also carrying out an examination of the reach of need- based 'base kitchens' and 'launderettes' with public private partnership to make the infrastructure for on -board services stronger. Call centers under PPP by IRCTC to cater to the need for information dissemination to the railway customers are also being planned. Apart from the above projects, for which Indian Railway Catering and Tourism

Corporation (IRCTC) would act as a cenrtal agency, IR is also thinking to launch new services for the luxury tourism segment on the pattern of 'Palace on Wheel' in partnership with other interested State Governments.

NEED OF PPP IN INDIAN RAILWAYS: THE ENABLERS

The economy is growing at a high growth rate in last few years, and this has put tremendous strain on the current level of infrastructure. Railways, though doing well than their previous performances, specially need huge investments in order to match the 8% growth rate of the economy. The need for this substantial financial capital, technological and managerial expertise, cannot be achieved through public investments alone.

Also, the growing competition from road and aviation sector is acting as driver for railways to include private players to improve the infrastructure.

The expert group on IR in 2001 remarked that:

"If IR is to survive as an ongoing transportation organisation it has to modernize and expand its capacity to serve the emerging needs of a growing economy"

And this expansion is impossible without the active contribution of the private sector.

The Vision 2020 document states about the need of PPP in IR:

"To achieve the mammoth task Railway has set itself, it has to concentrate on its core activity of creation of railway infrastructure and operations and forge partnerships with private sector to do the rest. The challenge of project execution and efficient provision of service cannot be accomplished without involving private sector in a big way..."

In the 11th Five year plan, Railways have planned to make an investment of Rs.2, 30,000 crores (46.84 billion USD). This planned expenditure of 46.84 billion USD is proposed to be financed by internal generation of 18.01 billion USD, market borrowings of 10 billion USD, budgetary support of 10.83 billion USD and 8 billion USD through the PPP route.

Apart from the huge investment, which private sector can bring in the Indian Railways, private participation also raises the services standard, ultimately leading to higher customer satisfaction. The discipline and sense of responsibility due to presence of a private player increases manifolds.

Also there is a lot of scope for property development in the vacant lands under IR, which needs to be explored through private participation.

Thus PPP are the need of the hour for Railways, and therefore it is also one of the most focussed areas of Railways.

THE CURRENT STATE

Despite the dire need and enormous importance of public private partnerships, the PPP model has not really kick started well in IR's. They have been implemented by IRs but only with a modest success rate.

The current legal framework under the Railways Act 1989 allows private railway systems in all forms. However, the government policy listed under Industrial Policy Resolution of 1991 has reserved railway transportation for the public sector. It means that though train operation can only be run by the public sector, but the private sector can participate in all other activities of design, construction, financing, and maintenance through award of concessions by Government of India.

FACTORS RESPONSIBLE FOR LOWER SUCCESS RATE OF PPP MODEL IN INDIAN RAILWAYS: THE BOTTLENECKS

The delays due to lengthy procedures

PPP projects have suffered from delays, with high time gaps between initial conceptualization and real project execution. The most important factor for such delays has been in evolving workable Request for Quotation (RFQ), Request for Proposal (RFP) and contractual agreements, and in taking along a number of stakeholders, driven by changing stances of the MoR. Some of the examples of this are the world class station at New Delhi, locomotive factories at Madhepura and Marhowra in Bihar.

This is one of the reasons why private parties shy away from entering into this area.

Lack of proper planning

Also, there exists no clear roadmap for implementation of PPP in IR. Lists of projects in consideration have been selected on urgency basis but without any sound official articulation or planning. IR also lacks finance and techno-managerial skills. Announcements are made every year, but nothing concrete is done in order to implement the made announcements on real basis.

Political Climate

It is evident that in our country politics dominate the decisions relating to economic policies. This also sometimes acts as a bottleneck in implementation of PPP.

Enforceability of the Contract

A PPP can only be successful if the government can ensure discipline on part of the private player to enforce the contract and thus result in achieving the desired objective but the railways lack the experience for doing so.

A senior railway official reveals the true reason, "We lack prior experience in dealing with such complex situations and hence are going very slow as we don't want any thing to go wrong."

It is clear that the IR does not possess the requisite managerial skills that the current complex business environment calls for.

Threat of Private monopolies

Another reason for the slow approach is the fear of emergence of private monopolies (in the place of state monopoly) in case right policies are not adopted. In the words of a senior railway official "The characteristics of the railways are such that private monopolies will mushroom in place of state monopoly in case the right policy is not adopted."

That is why the approach towards PPP has somewhat being skeptical or extra cautious.

PSU Mindset

Also the PSU mindset or way of functioning many a times acts as a hindrance in successful implementation of PPP. This is because of lack of interests shown by the Railway officials. This lack of interest is because of the fact that the entry of private players create a sense of job insecurity in their minds.

The private sector participation is not a gift without a curse. It comes with its own set of problems. It has historically been proved that inviting of private sector participation in case of a government monopoly has not always led to the private sector efficiencies and modernization. On the contrary it has led to monopolization in the hands of the private sector or in many cases even greater inefficiencies.

Poorly prepared feasibility reports

A senior railway official attributed the private sector's lack of interest in railway infrastructure projects to poorly prepared feasibility reports.

"We have not been able to present the projects in an attractive manner. It is very important to get detailed and accurate feasibility reports prepared for projects as it helps determine their viability but in many cases that has not been happening," said the official.

CONCLUSION

The most important aspect that needs to be focused for a smooth way forward is to have a clear vision as to why IR need PPPs. The logic for this should not be just resource mobilization. It needs to focus on the urgent need of entrepreneurial and managerial energies that private parties can bring in to make rail based transport more value adding for the end user. Once this is clear, then the attributes of the commercialization that is required for PPPs to succeed would fall into place. These attributes include, for each PPP, goal clarity, risk sharing, decision making autonomy, partner's interest (and competence), equity leverage, transaction costs, project structuring quality and transparency for contestability.

Along the same lines, the private partners cannot be taken as 'agents' but as 'dynamic organizations' who would aim to grow. This is precisely what IR should want from the PPPs (including the public- public partnerships) to make this a successful venture.

To minimize the scope of misinterpretation and misunderstandings, there is a need to develop proper documentations and well written contracts that act as a precise policy and regulatory framework between the IR and private parties.

Three such documents for container train operation, redevelopment of railway station, and procurement-cum-maintenance of locomotives were prepared in the recent past by the PC. But, whereas, the contracts should have been ready much before making any legal arrangement with private parties, here, in the case of container trains operations, the concession agreement was ready only after one year of awarding the license.

IR would also be required to develop a more flexible approach based on not just a political language of PPP, but with a vision of creating an organization that listens to, learns from and is responsive to a variety of stakeholders including customers, other affected and involved entities, and partners in PPPs.

A good start would be top management restructuring. The Vision 2020 document states the following on organizational restructuring:

"Organizational restructuring is, of course, fraught with challenges of its own and needs to be carefully attempted. One possible approach to address this issue could be to reconfigure the organization by separating infrastructure from operations and reorganization on business lines i.e. passenger, freight and parcel and other auxiliary services so that each service could be managed and measured on a profit-centre basis. Areas, other than core operations, where appropriate, could be corporatised to impart business focus and managerial autonomy for such tasks."

It is important to begin immediately with a separation in the IR's roles of licensor, operator and regulator. The separation of infrastructure and operations can then follow.

In parallel with this, what anyway is proposed, eventually, the Railway Board Members' roles should be redefined towards strategizing for key market segments rather than as the current cadre based functional supremo. Corporatization (for business focus and managerial autonomy) need not be limited to non core operations. In fact, the very essence of PPPs (corporatized through SPVs) in core activities is to bring in the business focus and managerial autonomy.

Still, if PPP in core operations are not in the foray right now, atleast non-critical areas in the Indian Railways should be identified and private sector participation should be allowed in the same and for the time being, the Indian Railways should focus on the core activities of running and operating the trains.

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